FINANCIAL SUSTAINABILITY FOR PENSION SYSTEMS IN EUROPE

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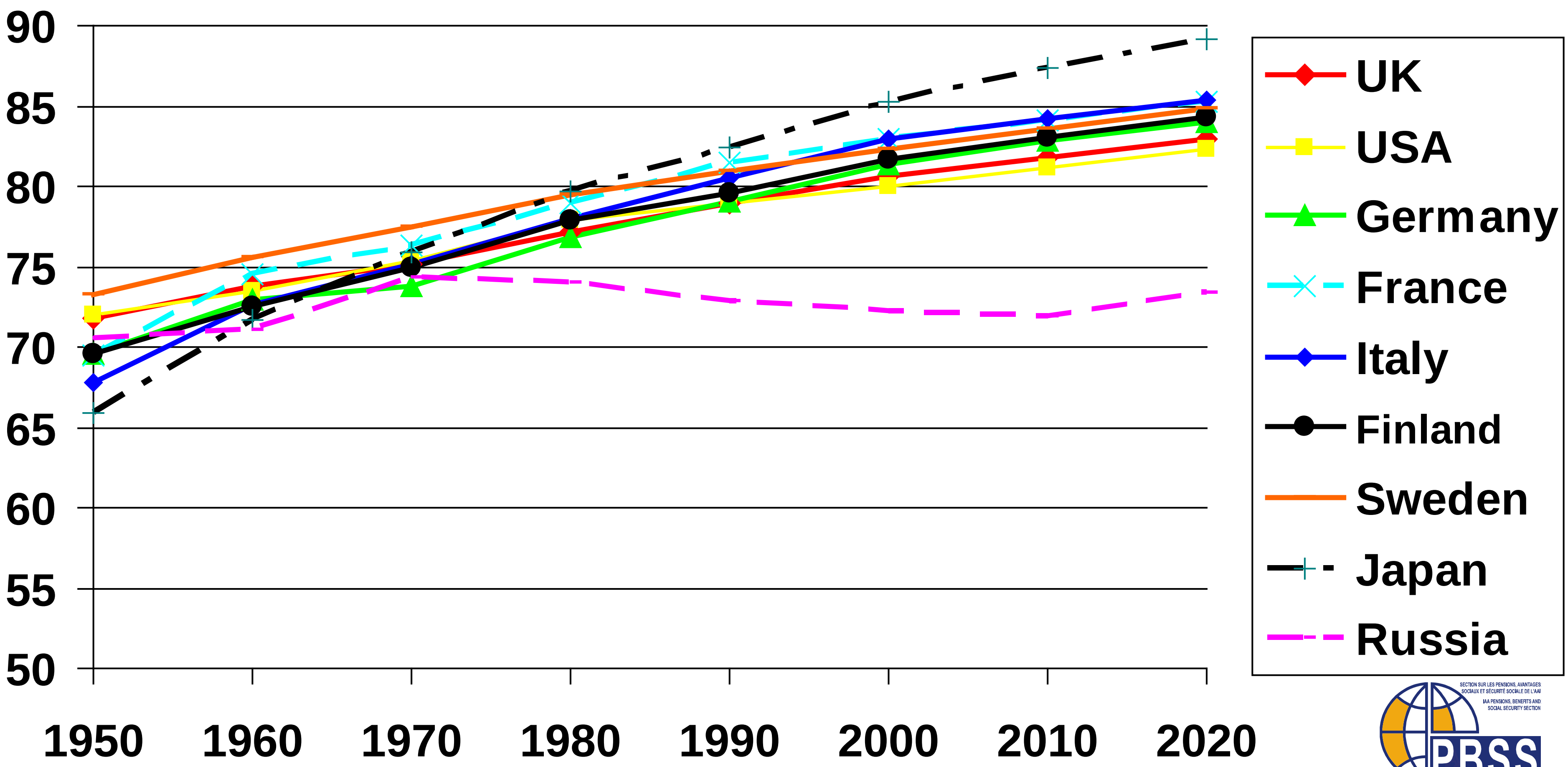
SECTION SUR LES PENSIONS, AVANTAGES SOCIAUX ET SÉCURITÉ SOCIALE DE L'AAI

IAA PENSIONS, BENEFITS AND SOCIAL SECURITY SECTION

PBSS

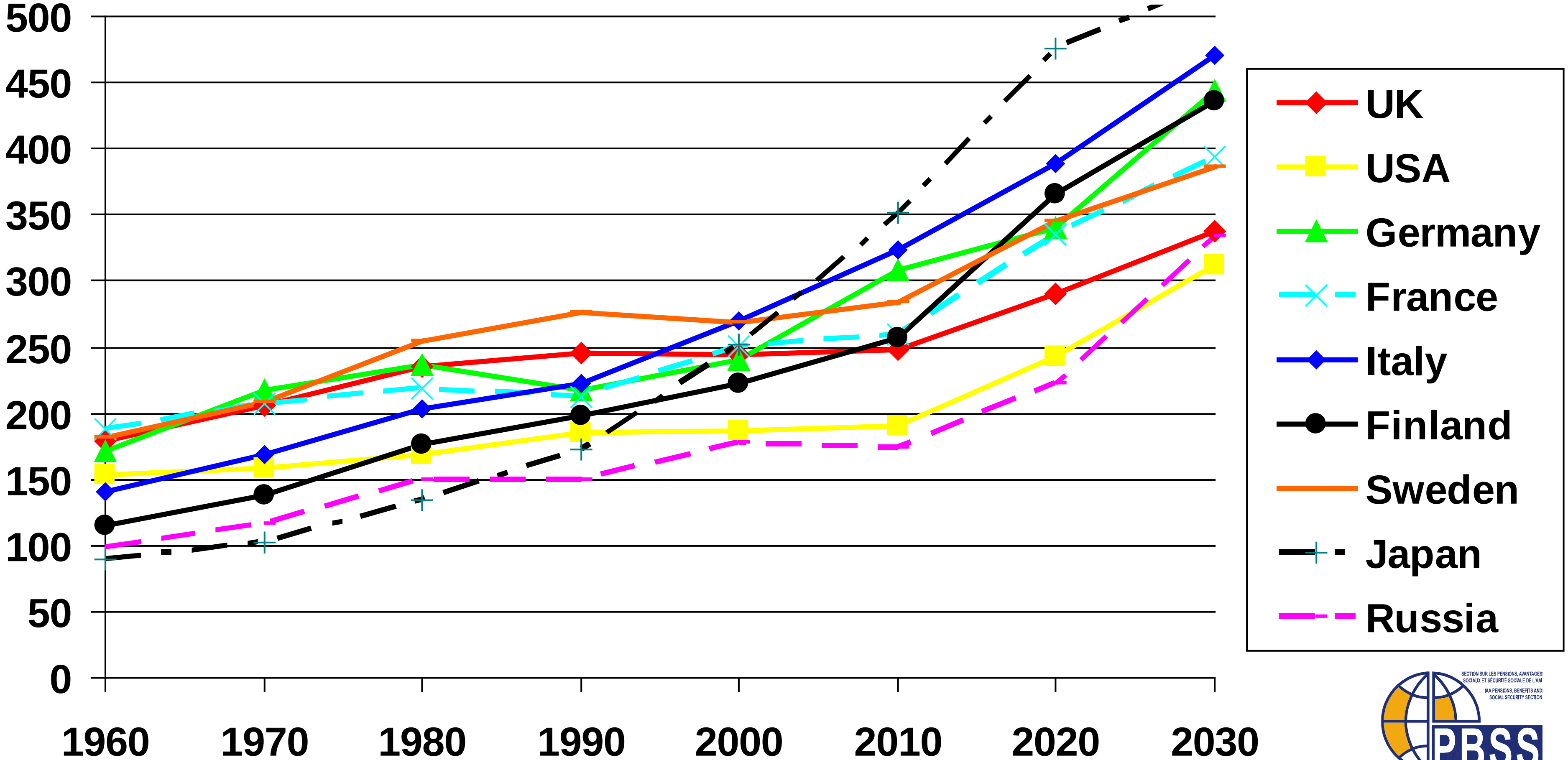
POPULATION AGEING

Expectation of life at birth for females, 1950-2020



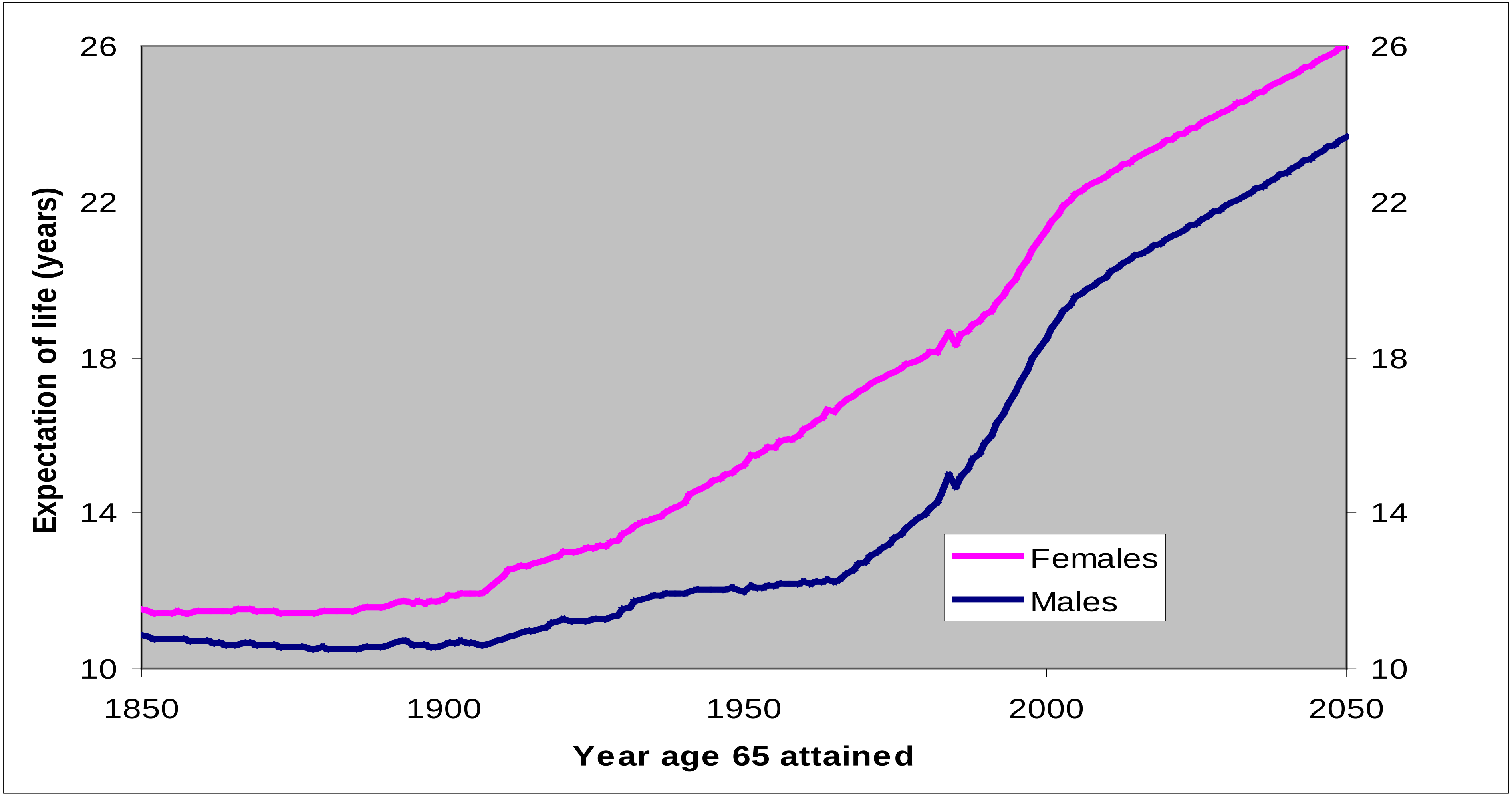
POPULATION AGEING

Dependency ratios, 1970-2030 (nos. 65 and over per 1000 aged 15-64)



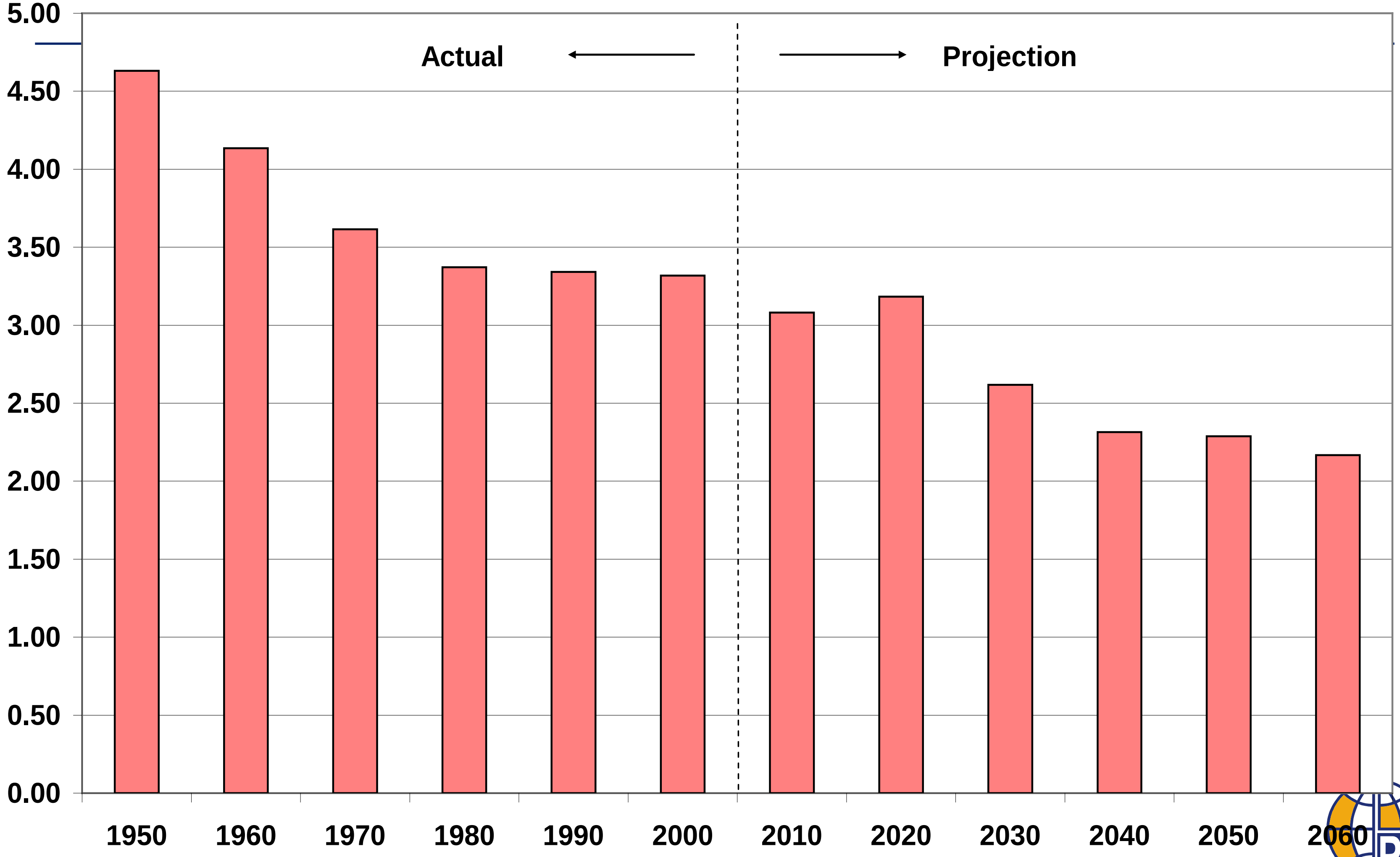
POPULATION AGEING

Expectation of life at age 65 on cohort basis, E&W



POPULATION AGEING

Pensioner support ratio (i.e. no of people at working ages per person over pension age)



SOCIAL SECURITY REFORM

What are the imperatives of social security reform?

> to recognise the impact of increasing longevity
> to ensure sustainability of structure and financing
> to reduce potential increases in the burden on taxpayers
> to improve retirement incentive structures
> to reduce intergenerational subsidies

SOCIAL SECURITY REFORM

Problems facing social security schemes in the EU

> demographic ageing

> maturing of defined benefit schemes

> effective retirement age too low

> unsustainable burden on future workers/taxpayers

> inadequate or volatile outcomes from DC schemes

> inadequate protection against longevity in DC schemes

SOCIAL SECURITY REFORM

Needed reforms of social security

> to ensure long term sustainability

> to raise effective retirement age

> to reduce incentives to retire early and encourage deferral

> to increase incentives to work and to contribute

> to improve efficiency and reduce transaction costs

SOCIAL SECURITY REFORM

Some alternative routes to reform national systems

- parametric reforms to defined benefit schemes
  - increase contributions or modify contribution structure
  - reduce benefits or tighten eligibility conditions
- raise retirement age
- fundamental structural reforms
  - notional defined contribution
  - new benefit models
  - automatic balancing mechanisms
- introduce funded individual accounts